

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL MEMORANDUM

HB 1536 – SB 2539

March 15, 2016

SUMMARY OF ORIGINAL BILL: Establishes a Hall Income Tax (HIT) credit for tax years beginning January 1, 2017, and thereafter, equal to 33 percent of the value of an investment by an angel investor, if the investment is at least \$15,000 and represents no more than 40 percent of the capitalization of the company at the time of the investment. Establishes that the credit will be equal to 50 percent of the value of an investment, if a qualified angel investor invests in a company located in a Tier 4 county. Limits the credit to \$50,000 per angel investor in any tax year. Limits the maximum amount of credits awarded to: \$3,000,000 for tax years beginning January 1, 2017; \$4,000,000 for tax years beginning January 1, 2018; and \$5,000,000 for tax years beginning January 1, 2019, and thereafter.

Defines an “angel investor” as a natural person who is an accredited investor under federal law and who invests in a company that, at the time of investment: is an innovative small business with high-growth potential, or is a company that has received small business innovation research/small business technology transfer funding, or is commercializing technology developed at a research institution in Tennessee; is not a professional service firm and is not primarily engaged in the provision of goods and services in the construction, leisure, hospitality, retail, real estate, insurance, banking, lobbying, consulting, alcohol, or gambling industries; has been in business for five years or less; has \$3,000,000 or less in gross annual revenue; and has 50 or fewer full-time employees, and at least 60 percent of those employees perform the majority of their duties within Tennessee.

Requires the Tennessee Technology Development Corporation to conduct a review of the cumulative effectiveness of the HIT credit by July 1, 2020, and to report its findings to the Speakers of the Senate and House of Representatives, Chairs of the Finance, Ways and Means Committees of both houses, the Commissioner of the Department of Economic and Community Development, and the Commissioner of the Department of Revenue.

FISCAL IMPACT OF ORIGINAL BILL:

Decrease State Revenue – \$1,949,100/FY17-18
\$2,598,800/FY18-19
\$3,248,500/FY19-20 and Subsequent Years

Decrease Local Revenue – \$1,050,900/FY17-18
\$1,401,200/FY18-19
\$1,751,500/FY19-20 and Subsequent Years

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Other Fiscal Impact - Secondary economic impacts may occur as a result of this bill. Such impacts may be reflected as additional private capital investment leveraged by the proposed state tax credits, additional jobs created as a result of such investments, and additional commercial activity in the state as a result of qualified companies receiving investments. Due to multiple unknown factors, fiscal impacts directly attributable to such secondary economic impacts cannot be quantified with reasonable certainty.

IMPACT TO COMMERCE OF ORIGINAL BILL:

Decrease Business Expenditures – \$3,000,000/FY17-18
\$4,000,000/FY18-19
\$5,000,000/FY19-20 and Subsequent Years

SUMMARY OF AMENDMENT (014006): Deletes and replaces language of the original bill to clarify that the established HIT credit is equal to 33 percent of the value of a cash investment, and that the \$3,000,000 gross annual revenue criteria is based on the company's prior fiscal year.

FISCAL IMPACT OF BILL WITH PROPOSED AMENDMENT:

Unchanged from the original fiscal note.

Assumptions for the bill as amended:

- Pursuant to Tenn. Code Ann. § 67-2-102, HIT is a six percent tax on income derived from dividends on stock or from interest on bonds.
- Given the tax changes shall be applied to tax years beginning with tax year 2017, and assuming that 100 percent of HIT owed for tax year 2017 is collected no later than June 30, 2018, the first year impacted by this bill as amended will be FY17-18.
- To reach the maximum credits allowed under this bill as amended (\$3,000,000 in FY17-18, \$4,000,000 in FY18-19, and \$5,000,000 in FY19-20 and subsequent years), the number of investors receiving the credit would have to reach 60 in FY17-18 (\$3,000,000 maximum credit / \$50,000 maximum credit per investor), 80 in FY18-19 (\$4,000,000 / \$50,000), and 100 in FY19-20 and subsequent years (\$5,000,000 / \$50,000).
- It is estimated that the maximum credit amount will be granted each year. As a result, the decrease in total HIT revenue is estimated to be \$3,000,000 in FY17-18, \$4,000,000 in FY18-19, and \$5,000,000 in FY19-20 and subsequent years.
- Based on apportionments of HIT collections for the last three fiscal years (FY12-13, FY13-14, and FY14-15), it is estimated that the state retains 64.97 percent of HIT revenue and local governments are apportioned 35.03 percent.

- The decrease in state HIT revenue is estimated to be \$1,949,100 in FY17-18 (\$3,000,000 x 64.97%), \$2,598,800 in FY18-19 (\$4,000,000 x 64.97%), and \$3,248,500 in FY19-20 and subsequent years (\$5,000,000 x 64.97%).
- The decrease in local HIT revenue is estimated to be \$1,050,900 in FY17-18 (\$3,000,000 x 35.03%), \$1,401,200 in FY18-19 (\$4,000,000 x 35.03%), and \$1,751,500 in FY19-20 and subsequent years (\$5,000,000 x 35.03%).
- Any increase in expenditures for the state to accomplish the requirements of this bill as amended will be not significant.
- Secondary economic impacts may occur as a result of this bill as amended. Such impacts may be reflected as additional private capital investment leveraged by the proposed state tax credits, additional jobs created as a result of such investments, and additional commercial activity in the state as a result of qualified companies receiving investments. Due to multiple unknown factors, fiscal impacts directly attributable to such secondary economic impacts cannot be quantified with reasonable certainty.

IMPACT TO COMMERCE WITH PROPOSED AMENDMENT:

Unchanged from the original fiscal note.

Assumptions for the bill as amended:

- Hall Income Tax liability for angel investors will decrease by \$3,000,000 in FY17-18, \$4,000,000 in FY18-19, and \$5,000,000 in FY19-20 and subsequent years.
- Secondary economic impacts may occur as a result of this bill as amended. Such impacts may be reflected as additional private capital investment leveraged by the proposed state tax credits, additional jobs created as a result of such investments, and additional commercial activity in the state as a result of qualified companies receiving investments. Due to multiple unknown factors, such economic impacts cannot be quantified with reasonable certainty.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.



Krista M. Lee, Executive Director

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